



**PORT ST JOHNS**  
• MUNICIPALITY •  
OUR HERITAGE, OUR PEOPLE

Port St Johns Municipality  
Annual Financial Statements  
for the year ended 30 June, 2017

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## General Information

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### Legal form of entity

Municipality

### Nature of business and principal activities

The main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates, Refuse and Waste Management Services - The collection and disposal of refuse.

### Members of Council

Mayor

Speaker

Chief Whip

Councillors

Councillor Rolobile L  
Councillor Khukula T  
Councillor Nokhanda B. N  
Councillor Bokwe N. F  
Councillor Cube Z. H  
Councillor Dyosoba M  
Councillor Fono K. M  
Councillor Jama F  
Councillor Fono N. C  
Councillor Hobo M  
Councillor Madini D.V  
Councillor Mafaka F  
Councillor Majali N. P  
Councillor Majeke K  
Councillor Maqina Z  
Councillor Mavimbela S. V  
Councillor Mazuza C. S  
Councillor Mfiki N  
Councillor Mhlabeni Z  
Councillor Mnceba D. Z  
Councillor Mjakuja B  
Councillor Moni X  
Councillor Mtiki Z  
Councillor Mtuku N.B  
Councillor Mzungule A  
Councillor Ndamase L  
Councillor Msongelwa T. M  
Councillor Ntlatywa S. L  
Councillor Ntsham T  
Councillor Sicoto S. E  
Councillor Soga. N. P  
Councillor Tani N  
Councillor Tshitshiliza N  
Councillor Tshotho G  
Councillor Totwana Z  
Councillor Vava N  
Councillor Veni M  
Councillor Vimba G. X  
Councillor Zweni R. M

## **Port St Johns Municipality**

Annual Financial Statements for the year ended 30 June, 2017

### **General Information**

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<b>Municipal demarcation code</b>	EC154
<b>Grading of Local Authority</b>	Grade 2
<b>Capacity of local authority</b>	Low
<b>Chief Financial Officer (CFO)</b>	Mrs P Gwana
<b>Accounting Officer</b>	Mr N Pakade
<b>Business address</b>	257 Main street Port St Johns 5120
<b>Postal address</b>	P O Box 2 Port St Johns 5120
<b>Bankers</b>	ABSA Limited
<b>Auditors</b>	Auditor-General South Africa
<b>Provincial treasury</b>	Eastern Cape Provincial Treasury

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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### Abbreviations

DSRAC	Department of Sports, Recreation, Arts and Culture
EPWP	Expanded Public works Programme
LED	Local Economic Development
LG SETA	Local Government Sector Education and Training Authority
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
PSJDA	Port St Johns Development Agency
SALGA	South African Local Government Association
INEP	Integrated National Electrification Programme
FMG	Finance Management Grant
MSIG	Municipal System Improvement Grant
VAT	Value Added Tax
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
SCM	Supply Chain Management



## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

### Accounting Officers Responsibilities and Approval

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The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.


The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the Municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the Municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has considered the Municipality's cash flow budget for the year to 30 June 2018, during the budgeting process, and in the light of this review and the current financial position, he is satisfied that the Municipality has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 82, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017.

  
Mr N Pakade  
Accounting Officer

Port St Johns

31 August, 2017

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Officer's Report

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The Accounting Officer submits his report for the Annual Financial Statements for the year ended 30 June, 2017.

### 1. Review of activities

#### Main business and operations

Main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates, Refuse, general services and includes the rental of units owned by the municipality.

### 2. Going concern

We draw attention to the fact that at 30 June, 2017, the Municipality had accumulated deficits of R440,254,680 and that the Municipality's total assets exceed its liabilities by R 440,254,680.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the Municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continue to procure funding for the ongoing operations for the Municipality

### 3. Subsequent events

The Municipality changed its bankers from Absa bank to Standard bank in 2017/2018 financial year.

### 4. Accounting Officer

The Accounting Officer of the Municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
Mr N Pakade	South African	Appointed

### 5. Interest in controlled entities

Name of controlled entity	Country of incorporation	Percentage
Port St Johns Development Agency	RSA	100

### 6. Bankers

The municipality banks with ABSA limited.

### 7. Auditors

Auditor-General South Africa will continue in office for the next financial period.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Statement of Financial Position as at 30 June, 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	48,913,631	36,870,057
Receivables from exchange transactions	4	1,061,328	729,467
Receivables from non-exchange transactions	5	3,915,782	3,452,394
VAT receivable	6	3,536,329	5,242,057
Other Receivables	7	886,832	808,844
Inventories	8	1,149,462	1,457,645
		<b>59,463,364</b>	<b>48,560,464</b>
<b>Non-Current Assets</b>			
Investment property	9	11,461,003	11,461,003
Property, plant and equipment	10	404,655,665	379,215,138
		<b>416,116,668</b>	<b>390,676,141</b>
Non-Current Assets		416,116,668	390,676,141
Current Assets		59,463,364	48,560,464
<b>Total Assets</b>		<b>475,580,032</b>	<b>439,236,605</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	11	25,487,701	19,016,904
Finance lease obligation	12	-	10,413,717
Unspent conditional grants and receipts	13	117,123	546,623
Employee benefit obligation	15	402,617	230,325
Consumer deposits		61,000	61,000
		<b>26,068,441</b>	<b>30,268,569</b>
<b>Non-Current Liabilities</b>			
Operating lease liability	14	1,849,335	1,729,553
Employee benefit obligation	15	2,053,009	1,898,031
Provisions	16	5,354,567	5,094,735
		<b>9,256,911</b>	<b>8,722,319</b>
Non-Current Liabilities		9,256,911	8,722,319
Current Liabilities		26,068,441	30,268,569
<b>Total Liabilities</b>		<b>35,325,352</b>	<b>38,990,888</b>
Assets		475,580,032	439,236,605
Liabilities		(35,325,352)	(38,990,888)
<b>Net Assets</b>		<b>440,254,680</b>	<b>400,245,717</b>
Accumulated surplus	17	440,254,680	400,245,717

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	20	804,339	755,693
Rental income	21	55,643	34,025
Interest received - trading		2,736,829	2,941,825
Other income	22	1,646,068	559,781
Interest received -Investments	19	3,153,437	1,650,444
<b>Total revenue from exchange transactions</b>		<b>8,396,316</b>	<b>5,941,768</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	23	7,411,369	6,741,055
Other Income	24	4,063,947	-
<b>Transfer revenue</b>			
Government grants and subsidies	25	173,761,289	149,272,297
Public contributions and donations		-	2,500
Fines, penalties and forfeits		371,400	290,100
Licences and permits		60,435	45,444
<b>Total revenue from non-exchange transactions</b>		<b>185,668,440</b>	<b>156,351,396</b>
		8,396,316	5,941,768
		185,668,440	156,351,396
<b>Total revenue</b>	18	<b>194,064,756</b>	<b>162,293,164</b>
<b>Expenditure</b>			
Employee related costs	26	(54,624,977)	(45,982,868)
Remuneration of councillors	27	(11,135,415)	(11,092,818)
Depreciation	30	(27,102,095)	(28,184,670)
Finance costs	31	(488,440)	(752,879)
Debt impairment	28	(3,067,128)	(1,920,263)
Repairs and maintenance	29	(2,254,846)	(2,153,294)
Contracted services	32	(9,946,401)	(14,038,735)
Grants and subsidies paid	33	(7,551,239)	(6,043,566)
Loss on disposal of assets		(1,118,337)	(17,155)
Operating lease rentals		(374,183)	(408,686)
General expenses	34	(36,392,731)	(31,373,139)
<b>Total expenditure</b>		<b>(154,055,792)</b>	<b>(141,968,073)</b>
		-	-
Total revenue		194,064,756	162,293,164
Total expenditure		(154,055,792)	(141,968,073)
Operating surplus/deficit		-	-
Surplus before taxation		40,008,964	20,325,091
Taxation		-	-
<b>Surplus for the year</b>		<b>40,008,964</b>	<b>20,325,091</b>

## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported at 01 July 2015	355,645,486	355,645,486
Adjustments		
Prior year adjustments - Note 47	24,275,132	24,275,132
<b>Balance at July 1, 2016 as restated</b>	<b>379,920,626</b>	<b>379,920,626</b>
Changes in net assets		
Surplus/(deficit) for the year	20,325,091	20,325,091
Total changes	20,325,091	20,325,091
<b>Restated* Balance at 1 July, 2016</b>	<b>379,509,504</b>	<b>379,509,504</b>
Changes in net assets		
Prior year adjustments-Note 47	20,736,212	20,736,212
Net income (losses) recognised directly in net assets	20,736,212	20,736,212
Surplus/(deficit) for the year	40,008,964	40,008,964
Total recognised income and expenses for the year	60,745,176	60,745,176
Total changes	60,745,176	60,745,176
<b>Balance at 30 June, 2017</b>	<b>440,254,680</b>	<b>440,254,680</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Cash Flow Statement

Figures in Rand

	Note(s)	2017	2016 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Licences and permits		68,911	51,803
Service charges		430,399	260,231
Grants and subsidies		173,868,673	149,933,340
Interest income		3,153,437	1,286,318
VAT refunds		12,250,099	20,350,148
Interest from outstanding debtors		682,450	497,290
Other receipts		1,669,557	2,874,787
Rental of facilities and equipment		63,432	38,940
Traffic Fines		78,250	51,630
Property rates		5,875,917	5,112,527
		<u>198,141,125</u>	<u>180,457,014</u>
<b>Payments</b>			
Employee costs and remuneration of councillors		(67,639,850)	(63,003,961)
Suppliers		(38,288,065)	(34,874,213)
Finance cost		(4,550)	(3)
Rental of equipment		(300,977)	(426,260)
Contracted services		(10,451,242)	(15,186,354)
Repairs and maintenance		(3,024,778)	(3,286,506)
Grants and subsidies paid		(8,608,411)	(6,889,665)
		<u>(128,317,873)</u>	<u>(123,666,962)</u>
Total receipts		198,141,125	180,457,014
Total payments		(128,317,873)	(123,666,962)
<b>Net cash flows from operating activities</b>	36	<u><b>69,823,252</b></u>	<u><b>56,790,052</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(51,429,908)	(20,301,017)
Proceeds from sale of property, plant and equipment	10	-	466,499
<b>Net cash flows from investing activities</b>		<u><b>(51,429,908)</b></u>	<u><b>(19,834,518)</b></u>
<b>Cash flows from financing activities</b>			
Finance lease payments		<u>(6,349,770)</u>	<u>(9,048,471)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>12,043,574</b></u>	<u><b>27,907,063</b></u>
Cash and cash equivalents at the beginning of the year		36,870,057	8,962,994
<b>Cash and cash equivalents at the end of the year</b>	3	<u><b>48,913,631</b></u>	<u><b>36,870,057</b></u>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	2,000,000	(1,000,000)	1,000,000	804,339	(195,661)	A1
Rental income	70,000	40,000	110,000	55,643	(54,357)	A2
Interest received - trading	1,500,000	1,500,000	3,000,000	2,736,829	(263,171)	
Other income	17,630,000	6,357,671	23,987,671	1,646,068	(22,341,603)	A3
Interest received - investment	1,500,000	1,700,000	3,200,000	3,153,437	(46,563)	
<b>Total revenue from exchange transactions</b>	<b>22,700,000</b>	<b>8,597,671</b>	<b>31,297,671</b>	<b>8,396,316</b>	<b>(22,901,355)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	12,390,549	(390,549)	12,000,000	7,411,369	(4,588,631)	A4
Other income	-	5,000,000	5,000,000	4,063,947	(936,053)	
<b>Transfer revenue</b>						
Government grants and subsidies	133,877,400	39,993,323	173,870,723	173,761,289	(109,434)	
Fines, penalties and forfeits	100,000	300,000	400,000	371,400	(28,600)	
Licences and Permits	200,000	(100,000)	100,000	60,435	(39,565)	A5
<b>Total revenue from non-exchange transactions</b>	<b>146,567,949</b>	<b>44,802,774</b>	<b>191,370,723</b>	<b>185,668,440</b>	<b>(5,702,283)</b>	
'Total revenue from exchange transactions'	22,700,000	8,597,671	31,297,671	8,396,316	(22,901,355)	
'Total revenue from non-exchange transactions'	146,567,949	44,802,774	191,370,723	185,668,440	(5,702,283)	
<b>Total revenue</b>	<b>169,267,949</b>	<b>53,400,445</b>	<b>222,668,394</b>	<b>194,064,756</b>	<b>(28,603,638)</b>	
<b>Expenditure</b>						
Employee related costs	(62,908,535)	(6,509,082)	(69,417,617)	(54,624,977)	14,792,640	B1
Remuneration of councillors	(14,700,000)	2,500,000	(12,200,000)	(11,135,415)	1,064,585	
Depreciation	(5,514,736)	(25,490,264)	(31,005,000)	(27,102,095)	3,902,905	B2
Finance costs	(100,600)	(455,400)	(556,000)	(488,440)	67,560	B3
Debt impairment	-	(7,270,242)	(7,270,242)	(3,067,128)	4,203,114	B4
Repairs and maintenance	(23,638,080)	18,907,620	(4,730,460)	(2,254,846)	2,475,614	B5
Contracted services	-	(11,795,000)	(11,795,000)	(9,946,401)	1,848,599	B6
Grants and subsidies paid	(7,000,000)	(1,620,000)	(8,620,000)	(7,551,239)	1,068,761	
General expenses	(109,186,998)	53,658,581	(55,528,417)	(36,392,731)	19,135,686	B7
<b>Total expenditure</b>	<b>(223,048,949)</b>	<b>21,926,213</b>	<b>(201,122,736)</b>	<b>(152,563,272)</b>	<b>48,559,464</b>	
	169,267,949	53,400,445	222,668,394	194,064,756	(28,603,638)	
	(223,048,949)	21,926,213	(201,122,736)	(152,563,272)	48,559,464	
<b>Operating surplus</b>	<b>(53,781,000)</b>	<b>75,326,658</b>	<b>21,545,658</b>	<b>41,501,484</b>	<b>19,955,826</b>	
Loss on disposal of assets	(53,781,000)	52,581,000	(1,200,000)	(1,118,337)	81,663	
Operating lease rentals	-	(400,000)	(400,000)	(374,183)	25,817	
	<b>(53,781,000)</b>	<b>52,181,000</b>	<b>(1,600,000)</b>	<b>(1,492,520)</b>	<b>107,480</b>	

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
	(53,781,000)	75,326,658	<b>21,545,658</b>	41,501,484	<b>19,955,826</b>	
	(53,781,000)	52,181,000	<b>(1,600,000)</b>	(1,492,520)	<b>107,480</b>	
<b>Surplus before taxation</b>	<b>(107,562,000)</b>	<b>127,507,658</b>	<b>19,945,658</b>	<b>40,008,964</b>	<b>20,063,306</b>	
Surplus before taxation	(107,562,000)	127,507,658	<b>19,945,658</b>	40,008,964	<b>20,063,306</b>	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(107,562,000)</b>	<b>127,507,658</b>	<b>19,945,658</b>	<b>40,008,964</b>	<b>20,063,306</b>	



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	631,098	914,005	1,545,103	1,149,462	(395,641)	C1
Receivables from non-exchange transactions	-	4,000,000	4,000,000	3,915,783	(84,217)	
Receivables from exchange transactions	3,152,570	(1,898,666)	1,253,904	1,061,328	(192,576)	
VAT receivable	-	3,700,000	3,700,000	3,536,329	(163,671)	
Other Receivables	2,709,498	3,555,043	6,264,541	886,832	(5,377,709)	C3
Cash and cash equivalents	4,946,843	73,413,125	78,359,968	48,913,631	(29,446,337)	C2
	<b>11,440,009</b>	<b>83,683,507</b>	<b>95,123,516</b>	<b>59,463,365</b>	<b>(35,660,151)</b>	
<b>Non-Current Assets</b>						
Investment property	12,148,663	-	12,148,663	11,461,003	(687,660)	
Property, plant and equipment	416,012,016	(8,512,222)	407,499,794	404,655,665	(2,844,129)	
	<b>428,160,679</b>	<b>(8,512,222)</b>	<b>419,648,457</b>	<b>416,116,668</b>	<b>(3,531,789)</b>	
Non-Current Assets	11,440,009	83,683,507	95,123,516	59,463,365	(35,660,151)	
Current Assets	428,160,679	(8,512,222)	419,648,457	416,116,668	(3,531,789)	
<b>Total Assets</b>	<b>439,600,688</b>	<b>75,171,285</b>	<b>514,771,973</b>	<b>475,580,033</b>	<b>(39,191,940)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	29,883,320	(5,003,320)	24,880,000	25,487,702	607,702	
Consumer deposits	-	150,000	150,000	61,000	(89,000)	
Employee benefit obligation	-	4,500,000	4,500,000	402,617	(4,097,383)	D1
Unspent conditional grants and receipts	-	120,000	120,000	117,123	(2,877)	
	<b>29,883,320</b>	<b>(233,320)</b>	<b>29,650,000</b>	<b>26,068,442</b>	<b>(3,581,558)</b>	
<b>Non-Current Liabilities</b>						
Borrowing	9,265,637	-	9,265,637	-	(9,265,637)	
Operating lease liability	-	2,000,000	2,000,000	1,849,335	(150,665)	D3
Employee benefit obligation	-	3,000,000	3,000,000	2,053,009	(946,991)	D2
Provisions	-	7,000,000	7,000,000	5,354,567	(1,645,433)	
	<b>9,265,637</b>	<b>12,000,000</b>	<b>21,265,637</b>	<b>9,256,911</b>	<b>(12,008,726)</b>	
Current liabilities	29,883,320	(233,320)	29,650,000	26,068,442	(3,581,558)	
Non-current liabilities	9,265,637	12,000,000	21,265,637	9,256,911	(12,008,726)	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>39,148,957</b>	<b>11,766,680</b>	<b>50,915,637</b>	<b>35,325,353</b>	<b>(15,590,284)</b>	
Assets	439,600,688	75,171,285	514,771,973	475,580,033	(39,191,940)	
Liabilities	(39,148,957)	(11,766,680)	(50,915,637)	(35,325,353)	15,590,284	
<b>Net Assets</b>	<b>400,451,731</b>	<b>63,404,605</b>	<b>463,856,336</b>	<b>440,254,680</b>	<b>(23,601,656)</b>	

## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

### Statement of Comparison of Budget and Actual Amounts

#### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	400,451,731	63,404,605	<b>463,856,336</b>	440,254,679	<b>(23,601,657)</b>	

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Property rates, Penalties and collection charges	12,390,549	(390,549)	12,000,000	5,875,917	(6,124,083)	E1
Service charges	2,000,000	(1,000,000)	1,000,000	430,399	(569,601)	E2
Government - operating	187,658,400	(13,787,677)	173,870,723	173,868,673	(2,050)	
Interest income	3,000,000	200,000	3,200,000	3,153,437	(46,563)	
Other revenue	18,000,000	14,597,671	32,597,671	14,812,699	(17,784,972)	E3
	<b>223,048,949</b>	<b>(380,555)</b>	<b>222,668,394</b>	<b>198,141,125</b>	<b>(24,527,269)</b>	
<b>Payments</b>						
Employee costs	(77,608,535)	(4,009,082)	(81,617,617)	(67,639,850)	13,977,767	F1
Transfers and grants	(7,000,000)	(1,620,000)	(8,620,000)	(8,608,412)	11,588	
Finance cost	(100,600)	(455,400)	(556,000)	(4,550)	551,450	F2
Suppliers	(132,724,477)	75,996,060	(56,728,417)	(38,288,065)	18,440,352	F5
Rental of equipment	-	(400,000)	(400,000)	(300,977)	99,023	F3
Contracted services	-	(11,795,000)	(11,795,000)	(10,451,242)	1,343,758	
Repairs and maintenance	-	(4,730,460)	(4,730,460)	(3,024,779)	1,705,681	F4
	<b>(217,433,612)</b>	<b>52,986,118</b>	<b>(164,447,494)</b>	<b>(128,317,875)</b>	<b>36,129,619</b>	
Total receipts	223,048,949	(380,555)	222,668,394	198,141,125	(24,527,269)	
Total payments	(217,433,612)	52,986,118	(164,447,494)	(128,317,875)	36,129,619	
<b>Net cash flows from operating activities</b>	<b>5,615,337</b>	<b>52,605,563</b>	<b>58,220,900</b>	<b>69,823,250</b>	<b>11,602,350</b>	
<b>Cash flows from investing activities</b>						
Capital Assets	(53,781,000)	2,060,100	(51,720,900)	(51,429,907)	290,993	
<b>Cash flows from financing activities</b>						
Finance lease payments	-	(6,500,000)	(6,500,000)	(6,349,770)	150,230	
Net increase/(decrease) in cash and cash equivalents	(48,165,663)	48,165,663	-	12,043,573	12,043,573	
Cash and cash equivalents at the beginning of the year	-	-	-	36,870,057	36,870,057	
<b>Cash and cash equivalents at the end of the year</b>	<b>(48,165,663)</b>	<b>48,165,663</b>	<b>-</b>	<b>48,913,630</b>	<b>48,913,630</b>	

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Figures in Rand

Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
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# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Financial Performance</b>											
Property rates	12,390,549	(390,549)	12,000,000	-	-	12,000,000	7,411,369		(4,588,631)	62 %	60 %
Service charges	2,000,000	(1,000,000)	1,000,000	-	-	1,000,000	804,339		(195,661)	80 %	40 %
Investment revenue	1,500,000	1,500,000	3,000,000	-	-	3,000,000	3,153,437		153,437	105 %	210 %
Transfers recognised - operational	133,877,400	39,993,323	173,870,723	-	-	173,870,723	149,272,297		(24,598,426)	86 %	111 %
Other own revenue	19,500,000	9,662,671	29,162,671	-	-	29,162,671	3,877,687		(25,284,984)	13 %	20 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>169,267,949</b>	<b>49,765,445</b>	<b>219,033,394</b>	<b>-</b>	<b>-</b>	<b>219,033,394</b>	<b>164,519,129</b>		<b>(54,514,265)</b>	<b>75 %</b>	<b>97 %</b>
Employee costs	(62,908,535)	(6,509,082)	(69,417,617)	-	-	(69,417,617)	(54,624,977)		14,792,640	79 %	87 %
Remuneration of councillors	(14,700,000)	2,500,000	(12,200,000)	-	-	(12,200,000)	(11,135,415)		1,064,585	91 %	76 %
Debt impairment	-	(7,270,242)	(7,270,242)	-	-	(7,270,242)	(3,067,128)		4,203,114	42 %	DIV/0 %
Depreciation and asset impairment	(5,514,736)	(25,490,264)	(31,005,000)	-	-	(31,005,000)	(27,102,095)		3,902,905	87 %	491 %
Finance charges	(100,600)	(455,400)	(556,000)	-	-	(556,000)	(488,440)		67,560	88 %	486 %
Other expenditure	(139,825,078)	59,151,201	(80,673,877)	-	-	(80,673,877)	(53,695,806)		26,978,071	67 %	38 %
<b>Total expenditure</b>	<b>(223,048,949)</b>	<b>21,926,213</b>	<b>(201,122,736)</b>	<b>-</b>	<b>-</b>	<b>(201,122,736)</b>	<b>(150,113,861)</b>		<b>51,008,875</b>	<b>75 %</b>	<b>67 %</b>
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>169,267,949</b>	<b>49,765,445</b>	<b>219,033,394</b>	<b>-</b>	<b>-</b>	<b>219,033,394</b>	<b>164,519,129</b>		<b>(54,514,265)</b>	<b>75 %</b>	<b>97 %</b>
<b>Total expenditure</b>	<b>(223,048,949)</b>	<b>21,926,213</b>	<b>(201,122,736)</b>	<b>-</b>	<b>-</b>	<b>(201,122,736)</b>	<b>(150,113,861)</b>		<b>51,008,875</b>	<b>75 %</b>	<b>67 %</b>
<b>Surplus/(Deficit)</b>	<b>(53,781,000)</b>	<b>71,691,658</b>	<b>17,910,658</b>	<b>-</b>	<b>-</b>	<b>17,910,658</b>	<b>14,405,268</b>		<b>(3,505,390)</b>	<b>80 %</b>	<b>(27) %</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and budget s31 of the MFMA)	Final adjustments	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	(53,781,000)	2,000,000	(51,781,000)	-	-	(51,781,000)	49,781,000		101,562,000	(96)%	(93)%
Surplus/(Deficit) Capital transfers and contributions	(53,781,000)	71,691,658	17,910,658	-	-	17,910,658	14,405,268	-	(3,505,390)	80 %	(27)%
	(53,781,000)	2,000,000	(51,781,000)	-	-	(51,781,000)	49,781,000	-	101,562,000	(96)%	(93)%
Surplus (Deficit) after capital transfers and contributions	(107,562,000)	73,691,658	(33,870,342)	-	-	(33,870,342)	64,186,268		98,056,610	(190)%	(60)%
Surplus (Deficit) after capital transfers and contributions	(107,562,000)	73,691,658	(33,870,342)	-	-	(33,870,342)	64,186,268	-	98,056,610	(190)%	(60)%
Surplus/(Deficit) for the year	(107,562,000)	73,691,658	(33,870,342)	-	-	(33,870,342)	64,186,268		98,056,610	(190)%	(60)%

# **Port St Johns Municipality**

Annual Financial Statements for the year ended 30 June, 2017

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of Standards of GRAP.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### **1.2 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.3 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Receivables**

The Municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the Municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the key assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

The Municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors..

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### Useful lives of property, plant and equipment and other assets

The Municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The Municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

#### Effective interest rate

The Municipality used the prime interest rate to discount future cash flows.

#### Allowance for impairment

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.4 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	20 - 30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

### 1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and standby equipment which are expected to be used for more than one period are included in property plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The useful lives and depreciation method of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Non depreciable	Non depreciable
Buildings	Straight line	30 years
Plant and machinery	Straight line	2-15 years
Furniture and fixtures	Straight line	7-10 years
Motor vehicles	Straight line	5- 10 years
Office equipment	Straight line	3- 7 years
Computer equipment	Straight line	3 years
Infrastructure	Straight line	15-30 years
Community	Straight line	30 years
Bins and containers	Straight line	5 years
Cellular equipment	Straight line	2 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.6 Site restoration and dismantling cost

The Municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the Municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.7 Investments in associates (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

#### Initial recognition

The Municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The Municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The Municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The Municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.7 Investments in associates (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short term receivables and payables are not discounted where initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:



# Port St Johns Municipality

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### 1.7 Investments in associates (continued)

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### Derecognition

#### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

#### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

# Port St Johns Municipality

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### 1.8 Leases (continued)

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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### 1.9 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



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Annual Financial Statements for the year ended 30 June, 2017

### Accounting Policies

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#### 1.10 Impairment of cash-generating assets (continued)

##### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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### 1.10 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

# Port St Johns Municipality

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## Accounting Policies

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### 1.11 Impairment of non-cash-generating assets (continued)

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# **Port St Johns Municipality**

Annual Financial Statements for the year ended 30 June, 2017

## **Accounting Policies**

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### **1.11 Impairment of non-cash-generating assets (continued)**

#### **Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Port St Johns Municipality

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## Accounting Policies

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### 1.12 Statutory receivables

Statutory receivables are receivables that:

- arise from legislation, supporting regulations, or similar means; and
- require settlement by another entity in cash or another financial asset.

Statutory receivables constitute revenue receivable from property rates, fines, penalties, grants and fees charged in terms of legislation.

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using GRAP 9;
- if the transaction is a non-exchange transaction, using GRAP 23;
- if the transaction is not within the scope of either GRAP 9 or GRAP 23, the receivable is recognised when:

- the definition of an asset is met; and
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

The municipality measures a statutory receivable initially at its transaction amount.

The municipality measures all statutory receivables after initial recognition using the cost method.

Under the cost method the amount recognised initially is only changed subsequently to reflect any:

- interest or other charges that may have accrued on the receivable;
- impairment loss; and
- amounts derecognised.

The municipality assesses at the end of each reporting period whether there is objective evidence that a statutory receivable or group of statutory receivables is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default payments are all considered indicators of impairment.

If there is objective evidence that an impairment loss on statutory receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated future cash flows - discounted if the effect of discounting is material - using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal does not result in a carrying amount of the statutory receivable that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where statutory receivables are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such receivables are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

The municipality derecognises a statutory receivable when:

- the rights to the cash flows from the statutory receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable;
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:

- derecognises the receivable;
- recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are considered for inclusion within the scope of GRAP 104 or another standard of GRAP. Any difference between the consideration received and amounts recognised and derecognised in surplus or deficit in the period of the transfer.

### 1.13 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

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Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.13 Employee benefits (continued)

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.



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### 1.13 Employee benefits (continued)

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by the municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.13 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Other long-term employee benefits

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.



# **Port St Johns Municipality**

Annual Financial Statements for the year ended 30 June, 2017

## **Accounting Policies**

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### **1.17 Revenue from non-exchange transactions (continued)**

#### **Taxes (Property rates for municipalities)**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **Collection charges and penalties**

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

### 1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.20 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act ( Act No. 56 of 2003), and includes :

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget expenditure from a vote unrelated to the department or functional area covered by the vote; expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation otherwise than in accordance with any conditions of the allocation; or a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act ( Act No. 56 of 2003), the municipal Systems Act ( Act No. 32 of 2000), and the Public Office Bearers Act 9 ( Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Accounting Policies

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### 1.23 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and income expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

### 1.24 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2016 to 6/30/2017.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.27 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15 (2) of the VAT Act (Act No. 89 of 1991)

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand

2017

2016

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### GRAP 16 (as revised 2015) Investment Property

The following amendments were made to the standard:

- > the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- > an indicator-based assessment of useful lives of assets was introduced;
- > clarification of the wording related to the use of external valuers;
- > introduction of more specific presentation and disclosure requirements for capital work-in-progress;
- > encouraged disclosures were deleted; and
- > separate presentation of expenditure incurred on repairs and maintenance in the financial statements is now required.

The effective date of the amendment is for years beginning on or after 01 April 2016.

The municipality has adopted the amendment for the first time in the 2017 annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

##### GRAP 17 (as revised 2015) Property, Plant and Equipment

The following amendments were made to the standard:

- > the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- > an indicator-based assessment of useful lives of assets was introduced;
- > clarification of the wording related to the use of external valuers;
- > introduction of more specific presentation and disclosure requirements for capital work-in-progress;
- > encouraged disclosures were deleted; and
- > separate presentation of expenditure incurred on repairs and maintenance in the financial statements are now required.

The effective date of the amendment is for years beginning on or after 01 April 2016.

The municipality has adopted the amendment for the first time in the 2017 annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

#### 2.2 Standards and Interpretations early adopted

The municipality has not early adopted any standards and or interpretations:

#### 2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July, 2017 or later periods:

##### IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in the municipality's financial statements. It also considers joint control of land by more than one entity.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

When the municipality concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16) or Property, Plant and Equipment (GRAP 17). As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the municipality applies the applicable Standard of GRAP to account for the land once control of the land has been determined. The municipality also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- > identifying related party relationships and transactions;
- > identifying outstanding balances, including commitments, between an entity and its related parties;
- > identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- > determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- > A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- > An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- > close member of the family of a person;
- > management;
- > related parties
- > remuneration; and
- > significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- > control
- > related party transactions; and
- > remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 109: Accounting by Principals and Agents



## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

### Notes to the Annual Financial Statements

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#### 2. New standards and interpretations (continued)

The objective of this Standard is to outline principles to be used by the municipality to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when the municipality is a principal or an agent.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

#### **GRAP 32: Service Concession Arrangements: Grantor**

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time; and the operator is compensated for its services over the period of the service concession arrangement. The operator providing the mandated function can either be a private party or another public sector entity.

Public Private Partnership agreements that are governed and regulated in terms of the MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph 07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 108: Statutory Receivables**

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables, because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>3. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Bank balances	4,672,766	2,530,144
Short-term deposits	44,240,865	34,339,913
	<b>48,913,631</b>	<b>36,870,057</b>

Fleet card amount is attached to the main account with the limit of R40 000

No item of cash and cash equivalents has been pledged as security.

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2017	30 June, 2016	30 June, 2015	30 June, 2017	30 June, 2016	30 June, 2015
Absa BANK - Current Account - Operational 9269	4,672,790	2,530,159	(45,125)	4,672,765	2,530,144	(45,125)
Absa Bank - Salaries Call Account - 7272	24,566,543	5,117,015	3,883,857	24,566,543	5,117,015	3,883,857
Absa Bank - MSP Fund Call Account - 9972	2,543	2,457	2,391	2,543	2,447	2,391
Absa Bank - Repairs Call Account - 1344	19,475,415	24,298,362	2,583,734	19,475,415	24,298,362	2,583,734
AbsaBank - FMG Call Account - 6056	1,000	3,245,348	1,001,162	1,000	3,245,357	1,001,162
Absa Bank - MIG Call Account - 6187	1,000	8,745	2,345	1,000	8,745	2,345
Absa Bank - LED Call Account - 7159	13,704	13,288	121,551	13,705	13,288	121,551
Absa Bank - Traffic Call Account - 3891	5,693	5,664	5,487	5,693	5,664	5,487
Absa Bank - Plant Call Account - 3922	27,136	1,645,027	1,407,425	27,136	1,645,027	1,407,425
Absa Bank - EPWP Call Account - 7506	1,339	1,002	-	1,339	1,002	-
Absa Bank - LG SETA Call Account - 9964	6,353	1,002	-	6,353	1,002	-
Absa Bank - INEP Call Account - 6122	1,000	1,002	-	1,000	1,002	-
Absa Bank - DESRAC Call Account - 7695	139,139	1,002	-	139,139	1,002	-
Petty Cash	-	-	167	-	-	167
<b>Total</b>	<b>48,913,655</b>	<b>36,870,073</b>	<b>8,962,994</b>	<b>48,913,631</b>	<b>36,870,057</b>	<b>8,962,994</b>

### 4. Receivables from exchange transactions

#### Gross balances

Refuse	6,069,166	5,109,456
Property lease rental	161,616	161,616
	<b>6,230,782</b>	<b>5,271,072</b>

#### Less: Allowance for impairment

Refuse	(5,024,000)	(4,396,151)
Property lease rental	(145,454)	(145,454)
	<b>(5,169,454)</b>	<b>(4,541,605)</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>4. Receivables from exchange transactions (continued)</b>		
<b>Net balance</b>		
Refuse	1,045,166	713,305
Property lease rental	16,162	16,162
	<b>1,061,328</b>	<b>729,467</b>
<b>Refuse</b>		
Current (0 -30 days)	114,383	317,300
31 - 60 days	113,069	102,208
61 - 90 days	112,317	101,344
91+ days	5,729,397	4,588,604
Less: Allowance for impairment	(5,024,000)	(4,396,151)
	<b>1,045,166</b>	<b>713,305</b>
<b>Housing rental</b>		
>365days	161,616	161,616
Less: Allowance for impairment	(145,454)	(145,454)
	<b>16,162</b>	<b>16,162</b>
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	29,534	80,874
31 - 60 days	29,088	27,863
61 - 90 days	28,978	27,463
91+ days	1,905,639	1,669,862
	1,993,239	1,806,062
Less: Allowance for impairment	(1,782,489)	(1,588,139)
	<b>210,750</b>	<b>217,923</b>
<b>Consumers past due and impaired</b>		
31 - 60 days	29,088	27,863
61 - 90 days	28,978	27,473
>90 days	1,905,639	1,831,478
	<b>1,963,705</b>	<b>1,886,814</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	47,687	132,928
31 - 60 days	46,769	40,512
61 - 90 days	46,109	40,230
90 + days	1,613,275	1,176,812
	1,753,840	1,390,482
Less: Allowance for impairment	(1,286,478)	(1,094,439)
	<b>467,362</b>	<b>296,043</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>4. Receivables from exchange transactions (continued)</b>		
<b>Industrial past due and impaired</b>		
31 - 60 days	46,769	102,208
61 - 90 days	46,109	40,230
>90 days	1,613,275	1,176,812
	<b>1,706,153</b>	<b>1,319,250</b>
<b>National and provincial government</b>		
Current (0 -30 days)	37,161	103,498
31 - 60 days	37,212	33,833
61 - 90 days	37,231	33,641
90+ days	2,210,482	1,755,525
	2,322,086	1,926,497
Less: Allowance for impairment	(1,955,034)	(1,094,439)
	<b>367,052</b>	<b>832,058</b>
<b>Total</b>		
Current (0 -30 days)	114,383	317,300
31 - 60 days	113,069	102,208
61 - 90 days	112,317	101,344
> 90 days	5,891,013	4,750,220
	6,230,782	5,271,072
Less: Allowance for impairment	(5,169,454)	(4,541,605)
	<b>1,061,328</b>	<b>729,467</b>
<b>Total debtor past due and impaired</b>		
31 - 60 days	113,069	102,208
61 - 90 days	112,317	101,344
> 90 days	5,891,013	4,763,815
	<b>6,116,399</b>	<b>4,967,367</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(4,541,605)	(3,654,628)
Contributions to allowance	(627,849)	(886,977)
<b>Closing balance</b>	<b>(5,169,454)</b>	<b>(4,541,605)</b>

### Receivables from exchange transactions pledged as security

No receivables from exchange transactions have been pledged as security.

### Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its risk credit control. No external credit rating is performed.

Consumer receivables from refuse are billed monthly. Interest is charged on overdue receivables from exchange transactions at a rate of 15% per annum.

The municipality enforces its approved credit control policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>5. Receivables from non exchange transactions</b>		
<b>Gross balances</b>		
Rates	23,131,982	20,522,465
Traffic fines	1,040,733	747,583
	<b>24,172,715</b>	<b>21,270,048</b>
<b>Less: Allowance for impairment</b>		
Rates	(19,435,471)	(17,203,121)
Traffic fines	(821,461)	(614,533)
	<b>(20,256,932)</b>	<b>(17,817,654)</b>
<b>Net balance</b>		
Rates	3,696,511	3,319,344
Traffic fines	219,271	133,050
	<b>3,915,782</b>	<b>3,452,394</b>
<b>Rates</b>		
Current (0 -30 days)	464,234	312,672
31 - 60 days	233,379	258,920
61 - 90 days	22,434,369	258,898
90+ days	-	19,691,976
Less: Allowance for impairment	(19,435,471)	(17,203,122)
	<b>3,696,511</b>	<b>3,319,344</b>
<b>Traffic Fines</b>		
Current (0 -30 days)	52,350	11,650
31 - 60 days	53,800	21,300
61 - 90 days	16,500	44,800
91 - 120 days	918,083	669,833
Less: Allowance for impairment	(821,461)	(614,533)
	<b>219,272</b>	<b>133,050</b>
<b>Summary of receivables by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	180,958	171,454
31 - 60 days	181,602	137,244
61 - 90 days	143,646	137,170
90+ days	12,243,445	10,326,478
	12,749,651	10,772,346
Less: Allowance for impairment	(11,498,829)	(9,755,120)
	<b>1,250,822</b>	<b>1,017,226</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>5. Receivables from non exchange transactions (continued)</b>		
<b>Consumers past due and impaired</b>		
31 - 60 days	181,602	137,244
61 - 90 days	143,646	137,170
>90 days	12,243,445	10,326,478
	<b>12,568,693</b>	<b>10,600,892</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	56,504	12,337
31 - 60 days	56,657	51,406
61 - 90 days	56,910	51,424
90+ days	5,313,297	4,488,498
	<b>5,483,368</b>	<b>4,603,665</b>
Less: Allowance for impairment	<b>(3,846,631)</b>	<b>(3,144,345)</b>
	<b>1,636,737</b>	<b>1,459,320</b>
<b>Industrial Past due and Impaired</b>		
31 - 60 days	56,657	51,406
61 - 90 days	56,910	51,424
>90 days	5,313,297	4,488,498
	<b>5,426,864</b>	<b>4,591,328</b>
<b>National and provincial government</b>		
Current (0 -30 days)	45,299	128,881
31 - 60 days	49,365	70,269
61 - 90 days	49,323	70,304
90+ days	5,795,710	4,903,464
	<b>5,939,697</b>	<b>5,172,918</b>
Less: Allowance for impairment	<b>(4,911,472)</b>	<b>(4,303,656)</b>
	<b>1,028,225</b>	<b>869,262</b>
<b>National and Provincial Governments - Past due and impaired</b>		
31 - 60 days	49,365	70,269
61 - 90 days	49,323	70,304
90+ days	5,795,710	4,903,464
	<b>5,894,398</b>	<b>5,044,037</b>
<b>Total</b>		
Current (0 -30 days)	282,761	324,322
31 - 60 days	287,623	280,220
61 - 90 days	249,879	303,698
90+ days	23,352,452	20,388,273
Less: Allowance for impairment	<b>(20,256,932)</b>	<b>(17,817,654)</b>
	<b>3,915,783</b>	<b>3,478,859</b>
<b>Total debtor past due and impaired</b>		
31 - 60 days	287,623	280,220
61 - 90 days	249,879	303,698
90+ days	23,352,452	20,388,273
	<b>23,889,954</b>	<b>20,972,191</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>5. Receivables from non exchange transactions (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	17,817,654	16,784,367
Contributions to allowance	2,439,278	1,033,287
	<b>20,256,932</b>	<b>17,817,654</b>

Consumer receivables pledged as security

No receivables from non-exchange have been pledged as security for any liabilities of the municipality.

Credit quality of receivables from non exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information in to its credit risk control. No external credit rating is performed.

Consumer receivables from rates are billed monthly. Interest is charged on overdue consumer receivables at a rate of 15% per annum.

No interest is charges on overdue traffic fines debtors.

The municipality enforces its approved credit control policy to ensure the recovery of receivables.

None of the financial assets that are fully performing have been renegotiated in the last year.

### 6. VAT receivable

VAT	3,536,329	5,242,057
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VAT receivable amount is made up of two basis as follows:

#### Cash Basis (SARS statement of account)

VAT Input	11,421,092	-
VAT Output	(149,521)	(37)
VAT Control	(8,992,005)	3,398,585
	2,279,566	3,398,548
	<b>2,279,566</b>	<b>3,398,548</b>

Accrual basis	Column heading	Column heading	Column heading	Column heading	Column heading	Total
Creditors VAT Provisional	-	-	-	1,834,745	2,110,459	3,945,204
Creditors VAT Provisional (Contingent asset)	-	-	-	-	251,700	251,700
Debtors VAT - Provisional	-	-	-	(577,982)	(504,854)	(1,082,836)
Debtors VAT Provisional (Contingent liability)	-	-	-	-	(13,795)	(13,795)
Cash basis balance	-	-	-	2,279,566	3,398,548	5,678,114
	-	-	-	<b>3,536,329</b>	<b>5,242,058</b>	<b>8,778,387</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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### 6. VAT receivable (continued)

Other write-offs already taken in to account on the VAT control

SARS Assessments during the year not recovered	28 861	140 491
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### 7. Other Receivables

SALGA	820,772	742,224
Sundry debtors(Overpayment of Councillors)	32,319	32,319
Suspense account (ABSA)	33,801	33,801
	<b>886,892</b>	<b>808,344</b>

SALGA relates to membership paid in full in the 2016/17 financial year relating to the 2017/18 financial year.

ABSA relates to the amounts fraudulently deducted from the municipal bank account.

### 8. Inventories

Stores	1,149,462	1,457,645
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#### 8.1 Inventory is categorised as follows;

Construction Material	645,733	824,632
Protective and Cleaning Material	31,724	27,006
Gardening	25,354	5,776
Mechanical Tools	31,603	31,655
Spare Parts	197,690	265,319
Fuel and Oil	217,358	303,257
	<b>1,149,462</b>	<b>1,457,645</b>

#### Inventory pledged as security

During the year no inventory was pledged as security.

### 9. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	11,461,003	-	11,461,003	11,461,003	-	11,461,003

#### Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	11,461,003	11,461,003



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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### 9. Investment property (continued)

#### Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	11,461,003	11,461,003

#### Pledged as security

None of the above investment property has been pledged as security.

Property to the value of R8 741 167 is held pending finalisation of sale to the O R Tambo District Municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 10. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	71,020,160	(2,815,754)	68,204,406	71,020,160	(2,241,229)	68,778,931
Plant and machinery	38,810,541	(10,563,501)	28,247,040	35,374,127	(8,907,288)	26,466,839
Furniture and fixtures	1,136,389	(579,533)	556,856	1,044,139	(447,600)	596,539
Motor vehicles	4,231,583	(1,990,665)	2,240,918	3,635,496	(1,706,709)	1,928,787
Office equipment	836,640	(333,299)	503,341	619,142	(234,067)	385,075
IT equipment	2,180,572	(933,954)	1,246,618	1,573,934	(666,630)	907,304
Infrastructure	374,509,770	(195,973,451)	178,536,319	358,915,108	(172,798,504)	186,116,604
Community Assets	14,252,177	(3,952,838)	10,299,339	14,119,427	(3,433,025)	10,686,402
Infrastructure - WIP	114,820,828	-	114,820,828	83,348,657	-	83,348,657
<b>Total</b>	<b>621,798,660</b>	<b>(217,142,995)</b>	<b>404,655,665</b>	<b>569,650,190</b>	<b>(190,435,052)</b>	<b>379,215,138</b>

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Other changes, movements	Depreciation	Total
Buildings	68,778,931	-	-	-	-	(574,525)	68,204,406
Plant and machinery	26,466,839	5,111,414	(1,675,000)	-	-	(1,656,213)	28,247,040
Furniture and fixtures	596,539	92,249	-	-	-	(131,932)	556,856
Motor vehicles	1,928,787	596,087	-	-	-	(283,956)	2,240,918
Office equipment	385,075	221,235	(3,737)	-	-	(99,232)	503,341
IT equipment	907,304	637,155	(30,517)	-	-	(267,324)	1,246,618
Infrastructure	186,116,604	-	-	15,594,663	-	(23,174,948)	178,536,319
Community Assets	10,686,402	132,750	-	-	-	(519,813)	10,299,339
Infrastructure - WIP	83,348,657	47,066,834	-	-	(15,594,663)	-	114,820,828
<b>Total</b>	<b>379,215,138</b>	<b>53,857,724</b>	<b>(1,709,254)</b>	<b>15,594,663</b>	<b>(15,594,663)</b>	<b>(26,707,943)</b>	<b>404,655,665</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>Reconciliation of property, plant and equipment - 2016</b>		
	Opening balance	Depreciation
	Additions	Disposals
	Transfers received	Transfers
	Other changes, movements	
Buildings	69,353,259	(574,91)
Plant and machinery	28,413,185	(2,186,27)
Furniture and fixtures	490,598	(118,04)
Motor vehicles	1,077,729	(346,47)
Office equipment and traffic equipment	166,499	(80,56)
IT equipment	581,582	(207,82)
Infrastructure	202,833,672	(26,084,28)
Community Assets	11,205,326	(518,92)
Infrastructure - WIP	65,004,578	-
	<b>379,126,428</b>	<b>(30,117,30)</b>

### Pledged as security

There were no assets held as security for loan

### Reconciliation of Work-in-Progress 2017

	Access Roads	Bridges	Electrification Structures	Total
Opening balance	79,081,693	4,266,964	-	83,348,657
Additions/capital expenditure	34,385,035	1,278,289	11,403,509	47,066,833
Transferred to completed items	(15,594,663)	-	-	(15,594,663)
	<b>97,872,065</b>	<b>5,545,253</b>	<b>11,403,509</b>	<b>114,820,827</b>

### Reconciliation of Work-in-Progress 2016

	Access Roads	Bridges	Total
Opening balance	61,965,549	3,039,030	65,004,579
Additions/capital expenditure	26,483,360	1,227,935	27,711,295
Transferred to completed items	(9,367,216)	-	(9,367,216)
	<b>79,081,693</b>	<b>4,266,965</b>	<b>83,348,658</b>

Included in capital work-in-progress are long outstanding projects amounting to

52 857 193

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>11. Payables from exchange transactions</b>		
Trade payables	2,494,044	631,865
Payments received in advance	1,247,153	1,099,302
Bonus Provision	1,234,290	1,003,222
Accruals	1,326,991	1,356,037
Unallocated deposits	17,250	120,420
Payroll accruals	2,375,815	1,165,384
Retentions	4,251,009	2,081,863
Leave pay provision	3,799,982	2,817,644
OR Tambo advance	8,741,167	8,741,167
	<b>25,487,701</b>	<b>19,016,904</b>

### 12. Finance lease obligation

<b>Minimum lease payments due</b>		
- within one year	-	10,413,717
<b>Present value of minimum lease payments due</b>		
- within one year	-	10,413,717

The municipality entered into a finance lease agreement with Laman Finance. The lease period was for a period of 2.5 years and this was supposed to be paid off in April 2016. However, the municipality did not clear the finance lease obligation as per the agreed time and as such it remained outstanding as at 30 June 2016. The interest rate for this finance lease is per asset category and is 8% per annum. The lease obligation was paid up in the financial year ended 30 June 2017.

The municipality's finance obligations under finance leases were secured by the lessor's charge over the leased assets.

### 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
Municipal System Improvement Grant	-	126,752
Local Government Sector Education and Training Authority	26,189	-
Expanded Public Works Programme	(1)	(1)
Finance Management Grant	-	419,872
Department of Sports, Recreation, Arts and Culture	90,935	-
	<b>117,123</b>	<b>546,623</b>

### Movement during the year

Balance at the beginning of the year	546,623	-
Additions during the year	54,089,789	29,284,920
Income recognition during the year	(54,099,419)	(28,738,297)
Amounts withdrawn by National Treasury	(419,870)	-
	<b>117,123</b>	<b>546,623</b>

See note 25 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised. Refer to Note 3.

<b>14. Operating lease liability</b>		
Non-current liabilities	1,849,335	1,729,553
	<b>1,849,335</b>	<b>1,729,553</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>14. Operating lease liability (continued)</b>		
<b>Minimum lease payments</b>		
Within 1 year	161,793	148,434
In the second to 5th year	806,490	968,283
After 5 years	5,628,053	5,708,950
	<b>6,596,336</b>	<b>6,825,667</b>

Port St Johns Local Municipality leases land from Transnet for a period of 29 years, effective from 1 January 2006. The lease payment is R5 000 per month with annual escalation of 9%. No contingent rent is payable. The lease is not renewable at the end of the lease term.

### 15. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

<b>Carrying value</b>		
Employee benefit obligation	(2,455,626)	(2,128,356)
Non-current liabilities	(2,053,009)	(1,898,031)
Current liabilities	(402,617)	(230,325)
	<b>(2,455,626)</b>	<b>(2,128,356)</b>

Changes in the present value of the long service award obligation are as follows:

Opening balance	2,128,356	1,981,000
Net expense recognised in the statement of financial performance	327,270	147,356
	<b>2,455,626</b>	<b>2,128,356</b>

Net expense of the long service awards obligation recognised in the statement of financial performance

Current service cost	336,359	320,000
Benefit Paid	230,325	586,000
Interest cost	171,906	189,000
Actuarial (gains) losses	(180,995)	(361,644)
	<b>557,595</b>	<b>733,356</b>

### 16. Provisions

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation - landfill sites	5,094,735	259,832	5,354,567

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation - landfill sites	4,801,824	292,911	5,094,735

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful in 2035 and has been discounted to reflect its present value.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand

2017

2016

### 17. Accumulated surplus

#### Changes in Accumulated surplus

	Accumulated Surplus	Total
Opening balance	375,970,584	375,970,584
Adjustments	-	-
Prior year adjustments - Note 47	24,275,132	24,275,132
Changes in net assets	-	-
Surplus/ (deficit) for the year	40,008,964	40,008,964
Closing balance	(440,254,680)	(440,254,680)
	-	-

### 18. Revenue

Service charges	804,339	755,693
Property rates	7,411,369	6,741,055
Government grants and subsidies	173,761,289	149,272,297
Interest received - trading	2,736,829	2,941,825
Interest received - investment	3,153,437	1,650,444
Public contributions and donations	-	2,500
Rental income	55,643	34,025
Other income	1,646,068	559,781
Other income on finance lease	4,063,947	-
Fines, penalties and forfeits	371,400	290,100
Licence and Permits	60,435	45,444
	<b>194,064,756</b>	<b>162,293,164</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	804,339	755,693
Rental of facilities and equipment	55,643	34,025
Interest received (trading)	2,736,829	2,941,825
Other income	1,646,068	559,781
Interest received - investment	3,153,437	1,650,444
	<b>8,396,316</b>	<b>5,941,768</b>

#### The amount included in revenue arising from non-exchange transactions is as follows:

##### Revenue from non - exchange transactions

Property rates	7,411,369	6,741,055
Other revenue	4,063,947	-

##### Revenue from exchange transactions

Government grants and subsidies	173,761,289	149,272,297
Public contributions and donations	-	2,500
Fines, penalties and forfeits	371,400	290,100
Licence and Permits	60,435	45,444
	<b>185,668,440</b>	<b>156,351,396</b>

### 19. Interest received - Investment

#### Interest revenue

Interest from the bank accounts	3,153,437	1,286,319
Interest received from SARS	-	364,125
	<b>3,153,437</b>	<b>1,650,444</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>20. Service charges</b>		
Refuse removal	804,339	755,693
<b>21. Rental income</b>		
<b>Premises</b>		
Halls and Bill boards	55,643	34,025
<b>22. Other income</b>		
Insurance claims received	1,428,686	173,960
Plan and tender documents fees	114,297	243,634
Sundry Income	34,925	79,988
Grave sites	23,544	9,833
Commission received	44,616	52,366
	<b>1,646,068</b>	<b>559,781</b>
<b>23. Property rates</b>		
<b>Rates received</b>		
Income forgone/Rebate	(2,858,208)	(489,631)
Rates	10,269,577	7,230,686
	<b>7,411,369</b>	<b>6,741,055</b>

Income forgone relates to discounts granted to ratepayers as per the approved municipal tariff schedule and policies

### Valuations

Residential	128,897,359	127,137,359
Commercial	125,832,640	125,832,640
State	163,330,500	160,028,500
Small holdings and farms	23,167,750	23,167,750
Vacant plots	43,351,669	44,314,669
	<b>484,579,918</b>	<b>480,480,918</b>

Valuations on land and buildings are performed every four (4) years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. No interim valuation was done in the 2016-2017 financial year since the contract of the person who do the valuations was terminated.

A general rate of 0.06 (2016: 0.07) is applied to property valuations to determine assessment rates. Rebates of 30-% (2016:0.30-%) are granted to state property owners.

### 24. Other Income

Other Income from finance lease obligation written off	4,063,947	-
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# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>25. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable Share	117,661,872	120,534,000
Expanded Public Works Programme	1,000,000	1,149,001
Municipal Systems Improvement Grant	126,752	803,248
Finance Management Grant	1,825,000	1,380,128
Local Government Sector Education Training Authority	147,200	1,027,920
Department of Sports, Recreation, Arts and Culture	209,065	100,000
O.R Tambo Intervention	2,000,000	-
Grant Local Government	1,010,400	-
	<u>123,980,289</u>	<u>124,994,297</u>
<b>Capital grants</b>		
Integrated National Electrification Programme	13,000,000	-
Municipal Infrastructure Grant	36,781,000	24,278,000
	<u>49,781,000</u>	<u>24,278,000</u>
	<u><b>173,761,289</b></u>	<u><b>149,272,297</b></u>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 50 kWh which is funded from the equitable share grant. Refuse removal services for a tariff of R102.47 are offered for free to the indigent communities of Port St Johns.

### Grants

Balance unspent at beginning of year	546,624	-
Current-year receipts	54,089,789	29,284,920
Conditions met - transferred to revenue	(54,099,417)	(28,738,296)
Amounts withdrawn by National Treasury	(419,872)	-
	<u><b>117,124</b></u>	<u><b>546,624</b></u>

Conditions still to be met - remain liabilities (see note 13).

Conditions still to be met relates to Local Government Sector Education and Training Authority, and Department of Sports, Recreation, Arts and Culture.

### Municipal Infrastructure Grant

Current-year receipts	36,781,000	24,278,000
Conditions met - transferred to revenue	(36,781,000)	(24,278,000)
	<u>-</u>	<u>-</u>

To provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions, servicing poor communities.

### Finance Management Grant

Balance unspent at beginning of year	419,872	-
Current-year receipts	1,825,000	1,800,000
Conditions met - transferred to revenue	(1,825,000)	(1,380,128)
Amount withdrawn by National Treasury	(419,872)	-
	<u>-</u>	<u><b>419,872</b></u>



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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### 25. Government grants and subsidies (continued)

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

#### Municipal Systems Improvement Grant

Balance unspent at beginning of year	(126,752)	-
Current-year receipts	-	930,000
Conditions met - transferred to revenue	126,752	(803,248)
Balance unspent at end of year	-	(126,752)
	<u>-</u>	<u>-</u>

To assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act.

#### Expanded Public Works Programme

Current-year receipts	1,000,000	1,149,000
Conditions met - transferred to revenue	(1,000,000)	(1,149,000)
	<u>-</u>	<u>-</u>

To incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas.

#### Local Government Sector Education and Training Authority

Balance unspent at beginning of year	1	1
Current-year receipts	173,389	1,027,920
Conditions met - transferred to revenue	(147,200)	(1,027,920)
	<u>26,190</u>	<u>1</u>

Conditions still to be met - remain liabilities (see note 13)

The purpose of this discretionary grant is to meet the sector needs as set out in the sector skills plan( SSP) and the priorities set out in the national skills development strategy ( NSDS 111) . In doing so, the local government is looking for suitable candidates to partner with to promote the development of the skills in the local government sector.

#### Local Economic Development

Current-year receipts	-	1,027,920
Conditions met - transferred to revenue	-	(1,027,920)
	<u>-</u>	<u>-</u>

Beautify open spaces, enhance and uplift the PSJ town. Provision of waste management infrastructure. Provision of road traffic signage and signage targeting beach front. Strengthening of shift work cleaning programe and targeted cleaning in hot spot areas.

#### Department of Sports, Recreation, Arts and Culture

Current-year receipts	300,000	100,000
Conditions met - transferred to revenue	(209,065)	(100,000)
	<u>90,935</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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### 25. Government grants and subsidies (continued)

The purpose of the grant is to maintain existing library facilities , assist in supervising and adminstration of staff in public libraries, establish library structures , support library awareness programmes and collect revenue from public libraries and deposit into municipal bank accounts

#### Integrated National Electrification Program (INEP)

Current-year receipts	13,000,000	-
Conditions met - transferred to revenue	(13,000,000)	-
	<u>-</u>	<u>-</u>

The primary objective of the INEP grant is to provide grid electricity to 5222 house holds distributed within the Port St Johns local municipality and the necessary bulk infrastructure in a form of link lines in compliance with National Standards, while creating temporal employment to local labour, as well as developing and improving practical and management experience of emerging contractors by implementation of labour intensive construction methods (LIC) wherever practical.

#### Local Government

Current-year receipts	1,010,400	-
Conditions met - transferred to revenue	(1,010,400)	-
	<u>-</u>	<u>-</u>

The purpose of the grant is to assist the municipality to improve its audit outcomes and address issues raised by the Auditor General in the 15/16 financial year such as maintenance of GRAP asset register and development of revenue enhancement strategy.

### 26. Employee related costs

Basic	41,451,109	35,911,777
Bonus	231,068	43,280
Medical aid - company contributions	4,255,495	3,828,391
UIF	530,939	536,859
Leave pay provision charge	982,338	111,235
Defined contribution plans	6,972,088	5,591,779
Long-service awards	336,359	320,000
Acturial gains	(180,995)	(361,644)
Allowances	46,576	1,191
	<u>54,624,977</u>	<u>45,982,868</u>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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### 26. Employee related costs (continued)

#### Remuneration of Municipal Manager Mr Ngamela Pakade (Appointed 1 April 2016)

Annual Remuneration	840,126	230,833
Car Allowance	216,075	53,750
Contributions to UIF	1,785	39,613
Other Allowances (House, Medical aid, Pension fund, Subsistence)	333,210	34,349
	<b>1,391,196</b>	<b>358,545</b>

#### Remuneration of previous Municipal Manager - Mr Ncedile Jakuja (left 28 February 2015)

Annual Remuneration	2,265,998	1,201,200
Contributions to UIF	297	-
	<b>2,266,295</b>	<b>1,201,200</b>

The amount paid to Mr Jakuja relates to a lumpsum per court order reference case number D391/16.

#### Remuneration of the Chief Financial Officer - Mrs Puleng Gwana ( Appointed 1 July 2015)

Annual Remuneration	896,194	823,533
Car Allowance	206,249	183,235
Performance Bonuses	-	77,112
Contributions to UIF, KGA life and SALGBC	2,214	1,784
Other Allowances (House, Subsistence)	73,340	-
	<b>1,177,997</b>	<b>1,085,664</b>

#### Remuneration of Corporate Services Manager - Mr Fundisile Guleni ( Appointed 1 September 2012)

Annual Remuneration	751,728	905,531
Car Allowance	215,621	208,589
Performance Bonuses	-	218,817
Contributions to UIF, KGA life, and SALGBC	2,214	-
Other Allowances (Public office, Subsistence)	208,954	2,209
	<b>1,178,517</b>	<b>1,335,146</b>

#### Remuneration of Community Services Manager - Mr Thandikhaya Mvukuzo ( Appointed 1 September 2012)

Annual Remuneration	896,194	1,045,285
Car Allowance	206,249	199,522
Contributions to UIF, KGA life and SALGBC	2,214	2,209
Other Allowances (Public office, Subsistence)	73,860	125,640
	<b>1,178,517</b>	<b>1,372,656</b>

#### Remuneration of Engineering Manager - Mr Bavuyise Tshitshi ( Appointed 1 September 2012)

Annual Remuneration	871,435	1,114,950
Car Allowance	148,254	147,573
Performance Bonuses	70,206	61,096
Contributions to UIF, KGA life and SALGBC	2,214	2,209
Other Allowances (Public office, Subsistence)	30,561	19,070
	<b>1,122,670</b>	<b>1,344,898</b>

## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

### Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>26. Employee related costs (continued)</b>		
<b>Remuneration of LED Manager - Ms Zamangwane Masumpa ( Appointed 1 July 2013)</b>		
Annual Remuneration	896,194	1,045,558
Car Allowance	206,249	199,249
Contributions to UIF, KGA life, SALGBC	2,214	-
Acting allowance	15,512	2,209
Other Allowances (Public office, Subsistence)	75,940	-
	<b>1,196,109</b>	<b>1,247,016</b>
<b>Remuneration of Acting CFO - Ms Nomsisi Hlangu (Appointed 1 June 2017)</b>		
Acting allowance	28,308	-

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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### 27. Remuneration of councillors

Councillors	11,135,415	11,092,818
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#### In-kind benefits

Mayor, Speaker and Chief Whip are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

2017	Annual remuneration	Backpay	Car Allowance	Cellphone Allowance	Total
Rolobile L - Mayor	497,495	250	163,770	1,751	663,265
Khukula T - Speaker	419,540	250	139,847	328	559,964
Nokhanda B - Chief Whip	392,557	250	131,185	13,788	537,780
Subtotal	1,309,592	750	434,802	15,867	1,761,009
Other Councillors	6,478,255	233,851	2,158,921	503,380	9,374,406
	<b>7,787,847</b>	<b>234,601</b>	<b>2,593,723</b>	<b>519,247</b>	<b>11,135,415</b>

2016	Annual remuneration	Backpay	Car Allowance	Cellphone allowance	Total
Langa P - Mayor	516,139	21,584	172,042	-	709,765
Khukula T - Speaker	412,910	17,267	137,635	-	567,812
Nokhanda B - Chief Whip	387,104	16,188	133,071	13,788	550,151
Subtotal	1,316,153	55,039	442,748	13,788	1,827,728
Other Councillors	6,041,221	740,421	1,995,123	488,325	9,265,090
	<b>7,357,374</b>	<b>795,460</b>	<b>2,437,871</b>	<b>502,113</b>	<b>11,092,818</b>

### 28. Debt impairment

Debt impairment	3,067,128	1,920,263
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### 29. Repairs and Maintenance

Buildings and installations	328,705	186,884
Computers	-	10
Equipment	3,684	842
Furniture and fittings	-	34,711
Infrastructure	1,066,871	79,660
Landfil site rehabilitation	31,000	-
Motor vehicles	348,024	558,133
Office and traffic equipment	105,360	2,080
Repairs and maintenance street lights	19,040	255,905
Repairs and maintenance plant & machinery	352,161	995,706
Road maintenance	-	39,362
	<b>2,254,845</b>	<b>2,153,293</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>30. Depreciation</b>		
Property, plant and equipment	27,102,095	28,184,670
<b>31. Finance cost</b>		
Interest charged to main bank account	654	(1,862)
Interest charged on overdue accounts	56,049	8,617
Interest on provision and employee benefits obligation	431,737	746,124
	<b>488,440</b>	<b>752,879</b>
Finance cost charges relate to interest charged on the main bank account , overdue accounts and also on provision and employee benefits obligation.		
<b>32. Contracted services</b>		
Legal fees	930,664	1,674,813
Security costs	1,089,874	1,413,816
Consultancy and professional fees	7,925,863	10,950,106
	<b>9,946,401</b>	<b>14,038,735</b>
<b>33. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
LED Programmes- (PSJDA)	7,551,239	6,043,566
<b>34. General expenses</b>		
Audit Committee fees	206,462	312,102
Advertising	788,297	178,199
Auditors remuneration	4,565,496	2,568,694
Bank charges	113,047	94,618
Cleaning	86,680	-
Consumables	169,186	113,967
Entertainment	271,550	243,502
Hire	472,651	-
Insurance	976,359	981,459
Books and publications	64,781	83,456
Motor vehicle expenses	606,021	747,735
Fuel and oil	655,724	691,218
Printing and stationery	613,661	814,554
License fees	401,310	181,049
Subscriptions and membership fees	801,319	805,707
Telephone and fax	3,498,234	3,102,764
Training	403,614	754,372
Travel - local	4,093,887	4,905,839
Electricity	1,395,161	2,439,153
Uniforms	321,450	391,694
Tourism development	158,308	-
Penalty Charges	1,274,144	357,738
Grant project expenses	4,229,318	3,632,807
Social responsibility programmes	5,842,413	2,208,509
SDL	584,233	522,140
Ward committee stipends	2,128,372	903,860
Other expenses	1,671,053	4,338,003
	<b>36,392,731</b>	<b>31,373,139</b>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>35. Auditors' remuneration</b>		
Fees	4,565,496	2,568,694
<b>36. Net cash flows from operating activities</b>		
Surplus	40,008,964	20,325,091
<b>Adjustments for:</b>		
Depreciation and amortisation	27,102,095	28,184,670
Gain on sale of assets and liabilities	1,118,337	17,155
Debt impairment	3,067,128	1,920,263
<b>Changes in working capital:</b>		
VAT refund	12,250,099	20,350,148
Other non cash items	(13,723,371)	(14,007,275)
	<b>69,823,252</b>	<b>56,790,052</b>
<b>37. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	37,695,427	34,476,478
<b>Total capital commitments</b>		
Already contracted for but not provided for	37,695,427	52,781,071
This committed expenditure relates to access roads and will be financed by mainly the Municipal Infrastructure Grant.		
<b>Operating leases liability</b>		
<b>Minimum lease payments due</b>		
- within one year	161,793	148,434
- in second to fifth year inclusive	806,490	968,283
- later than five years	5,628,053	5,708,950
	<b>6,596,336</b>	<b>6,825,667</b>

Port St Johns Local Municipality leases land from Transnet for a period of 29 years, effective from 1 January 2006. The lease payment is R 5 000 per month with an annual escalation of 9%. No contingent rent is payable. The lease agreement is not renewable.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

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### 38. Contingencies

#### Liabilities

##### **Bambilanga and Tshibilika Vs Port St Johns Municipality (Case no. 4435/2016 and 92/2017)**

This matter concerns two Municipal employees who were assaulted by casual workers. They are suing the Municipality for injuries they suffered as they allege that the Municipality did not put in place protective measures to protect them. A consultation has been made and a plea has been filed in the matter. The attorneys of record have withdrawn from the matter, which means it now dormant until they appoint another attorney.

The estimated fees are R500 000

##### **W Kebede Vs Port St Johns Municipality (Case no. 138/2016)**

W Kebede is suing the Municipality for the pounding of vehicles in town. A consultation was done and a plea was filed. The matter is set down for 15 August 2017. The matter was then postponed to 29 August 2017, and has since been postponed to the 26th September 2017.

The estimated fees are in the region of R35 000

##### **Mr Mfecane Vs Port St Johns Municipality (Case no. MAT 5596)**

Mr Mfecane instituted action against the Municipality for damages allegedly suffered in the sum of R76 910 as a result of his property being unlawfully demolished.

The matter is ready for trial and awaiting a trial date.

Estimated fees R159 000

##### **Mr Bodlani Vs Port St Johns Municipality (Case no. MAT 4627)**

Mr Bodlani instituted an action against the Municipality for damages allegedly suffered in the sum of R495 000 as a result of being assaulted by municipal employees. This matter is awaiting trial.

Estimated fees are R650 000

##### **Almo Projects CC t/a Zamani Civils Vs Port St Johns Municipality (Case no. MAT 5106)**

Almo Projects CC t/a Zamani Civils instituted an action against the Municipality for alleged breach of contract in the sum of R9 944 339. The claim has been ceded to Nurcha Finance Development (Pty)Ltd.

We are awaiting a trial date.

Estimated fees R11 000 000

##### **Z Ndabeni & Others Vs Port St Johns Municipality (2209/2016)**

The Port St Johns Municipality is sued for unlawful arrest. The plaintiffs amended their particulars of claim, the case was served and filed. All the necessary pleadings have been exchanged and pleadings have been closed. We have applied for a trial date to be allocated by the registrar.

The Municipality has a strong case against the defendants and might win.

The estimated fees R200 000

##### **Z Ndabeni & Others Vs Port St Johns Municipality (2803/2016)**

The Port St Johns Municipality is sued for unlawful arrest, pleadings have been closed. The matter is set down for trial on 24 October 2017. We believe the municipality has a good case against the plaintiffs.

The estimated fees R200 000

##### **Fundile Nogumla & Others Vs Port St Johns Municipality (591/16)**

A civil claim for damages against municipality suffered as a result of alleged negligence by Municipality (shark attack). The defendant raised a Rule 30 A read with Rule 18 against plaintiff's particulars of claim. The plaintiffs have failed to amend their particulars of claim, summons were received and a notice was filed to defend.

The estimated fees R500 000

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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### 39. Related parties

Relationships		
Accounting Officer : Mr Pakade		Refer to employee related costs
Chief Finance Officer		Refer to employee related costs
Corporate services manager		Refer to employee related costs
Community services manager		Refer to employee related costs
Engineering manager		Refer to employee related costs
Local Economic Development Manager		Refer to employee related costs
Councillors		Refer to remuneration of councillors

### Related party balances

<b>Advance on purchase of land</b>		
OR Tambo	8,741,165	8,741,165

### Related party transactions

<b>Grant paid to (Received from) related parties</b>		
PSJ Development Agency	7,551,239	6,043,566

### 40. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: credit risk and liquidity risk and market risk.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to receivables on an ongoing basis. If receivables are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivable, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Financial assets and liabilities exposed to credit risk at year end were as follows:

	2017	2016
Financial instrument		
Receivables from exchange transactions	1,061,328	729,467
Receivables from non exchange transactions	3,915,782	3,452,394
Cash and Cash equivalents	48,913,631	36,870,057
Payables from exchange transactions	24,505,363	19,016,908
Other receivables	886,832	808,844
Consumer deposits	61,000	61,000

#### Market risk

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

### Figures in Rand

#### 40. Risk management (continued)

##### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

#### 41. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to source funding for the ongoing operations for the municipality.

#### 42. Events after the reporting date

There are no material adjusting and non-adjusting events after the reporting date.

#### 43. Unauthorised expenditure

Opening Balance	91,950,988	91,950,988
-----------------	------------	------------

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes : overspending of the total amount appropriated in the municipality's approved budget; overspending of the total amount appropriated for a vote in the approved budget expenditure from a vote unrelated to the department or functional area covered by the vote; expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation otherwise than in accordance with any conditions of the allocation; or a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

#### 44. Fruitless and wasteful expenditure

Opening balance	17,327,704	14,106,083
Current year	1,329,830	3,221,621
	<b>18,657,534</b>	<b>17,327,704</b>

#### 45. Irregular expenditure

Opening balance	113,794,441	95,470,321
Add: Irregular Expenditure - current year	11,231,319	18,291,801
Councillors remuneration not paid in accordance with the government gazette	-	32,319
	<b>125,025,760</b>	<b>113,794,441</b>

#### Analysis of expenditure

Irregular expenditure relates to expenditure incurred contrary to supply chain management policy and regulations. There are currently no cases under investigation.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 46. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government - SALGA

Opening balance	(742,224)	(91,150)
Current year subscription / fee	742,224	678,377
Amount paid - current year	(820,712)	(1,329,451)
	<u>(820,712)</u>	<u>(742,224)</u>

#### Audit fees

Opening balance	(31,212)	2,430,354
Current year subscription / fee	4,565,496	4,301,290
Amount paid - current year	(4,727,024)	(6,762,856)
	<u>(192,740)</u>	<u>(31,212)</u>

#### PAYE , UIF and SDL

Opening balance	1,156,644	1,111,462
Current year subscription / fee	10,288,507	9,065,486
Amount paid - current year	(10,136,141)	(9,386,660)
Interest and Penalties	1,281,802	366,356
	<u>2,590,812</u>	<u>1,156,644</u>

#### Pension and medical aid deductions

Opening balance	38,183	157,554
Current year subscription / fee	11,639,001	10,377,417
Amount paid - current year	(11,525,591)	(10,496,788)
	<u>151,593</u>	<u>38,183</u>

#### Vat

VAT receivable	<u>3,536,329</u>	<u>5,242,057</u>
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VAT output payables and VAT input receivables are shown in note .

#### Councillors' arrear consumer accounts

All councillors reside in the rural areas of Port St John's Municipality, therefore, they are not billed for any services.

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Council. The expenses incurred as listed hereunder have not been condoned.

Sole Provider	601,264	-
Emergency	50,270	-
Exceptional Cases	1,951,255	-
	<u>2,602,789</u>	<u>-</u>

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

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### 47. Prior period errors

The prior year has been amended to account for prior period errors

Below is a summary of the total effect the prior period errors, changes in accounting policies and reclassifications of the comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amount involved.

Statement of Financial Performance for the year ended June 2017

Revenue	Balance as previously reported	Prior period error	Reclassified	Restated balance
Service charges	755,693	-	-	755,693
Rental income	34,025	-	-	34,025
Interest received - trading	2,946,098	(4,273)	-	2,941,825
Interest received - investment	1,650,441	3	-	1,650,444
Other Income	559,520	261	-	559,781
Public contributions and donations	2,500	-	-	2,500
Revenue from non exchange transactions	-	-	-	-
Fines, penalties and forfeits	290,100	-	-	290,100
Government grants and subsidies	149,272,297	-	-	149,272,297
Licences and permit	45,444	-	-	45,444
Property rates	6,741,055	-	-	6,741,055
Total revenue	162,297,173	(4,009)	-	162,293,164
<b>Expenditure</b>				
Employee related costs	45,982,869	-	-	45,982,869
Remuneration of councillors	11,084,771	8,047	-	11,092,818
Debt impairment	1,920,263	-	-	1,920,263
Depreciation and amortisation	27,567,574	617,095	-	28,184,669
Finance costs	768,721	(15,842)	-	752,879
Repairs and maintenance	2,153,292	-	-	2,153,292
Contracted services	14,024,353	14,383	-	14,038,736
Grants and subsidies paid	6,043,566	-	-	6,043,566
General expenses	28,461,905	2,911,229	-	31,373,134
Operating lease rentals	408,686	-	-	408,686
Profit/ Loss on disposal of assets	17,155	-	-	17,155
Total expenditure	138,433,155	3,534,912	-	141,968,067
Operating surplus / (deficit) for the year	23,864,018	(3,538,920)	-	20,325,098
Surplus / (deficit) for the year	23,864,018	(3,538,920)	-	20,325,098

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Prior period errors (continued)

Statement of Financial Position as at 30 June 2017	Balance as previously reported	Prior period error	Reclassified	Restated balance
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	36,857,627	12,431	-	36,870,058
Receivables from exchange transactions	743,062	(13,595)	-	729,467
Receivables from non-exchange transactions	3,478,859	(26,465)	-	3,452,394
VAT receivable	5,399,065	(157,007)	-	5,242,058
Other debtors	816,891	(8,047)	-	808,844
Inventories	1,457,645	-	-	1,457,645
Total current assets	48,753,149	(192,683)	-	48,560,466
<b>Non-current Assets</b>				
Investment property	11,461,003	-	-	11,461,003
Property, plant and equipment	359,627,449	19,587,689	-	379,215,138
Total non-current assets	371,088,452	19,587,689	-	390,676,141
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Payables from exchange transactions	20,238,324	(1,221,418)	-	19,016,906
Finance lease obligation	10,532,048	(118,331)	-	10,413,717
Unspent conditional grants and receipts	546,623	-	-	546,623
Employee benefit obligation	230,325	-	-	230,325
Consumer deposit	61,000	-	-	61,000
Total current liabilities	31,608,320	(1,339,749)	-	30,268,571
<b>Non-current Liabilities</b>				
Provisions	5,094,735	-	-	5,094,735
Employee benefit obligation	1,898,031	-	-	1,898,031
Finance lease obligation	1,457	(1,457)	-	-
Operating lease liability	1,729,553	-	-	1,729,553
Total non-current liabilities	8,723,776	(1,457)	-	8,722,319
<b>Net Assets</b>				
Accumulated surplus - Opening balance	379,509,504	20,736,212	-	400,245,716
Total net assets	379,509,504	20,736,212	-	400,245,716
<b>Accumulated surplus</b>				
Interest received - Investments	-	-	-	(3)
Other Income	-	-	-	(261)
Interest received - trading	-	-	-	4,273

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

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### 47. Prior period errors (continued)

Contracted Services	-	14,383
Depreciation	-	617,095
Finance Costs	-	(15,842)
General Expenses	-	2,911,229
Remuneration of Councillors	-	8,047
Cash and Cash Equivalents	-	12,431
Other Debtors	-	(8,047)
Receivables from exchange transactions	-	(13,595)
Receivables from non exchange transactions	-	(26,465)
Vat Recivables	-	(157,007)
Property Plant & Equipment	-	19,587,689
Finance Lease obligation	-	119,788
Payables from exchange transactions	-	1,221,418
	-	<u>24,275,133</u>

### STATEMENT OF FINANCIAL PERFORMANCE

#### Interest Received - Investment

Interest received related to MSP call account. The interest was omitted resulting in misstatements of the bank account as well as interest income by R3.

#### Interest received - Trading

Interest charged to overdue was overstated erroneously resulting in overstatement of the receivables from non-exchange transactions as well as interest by R4 273.

#### Other Income

Income from the sale of tender document was incorrectly accounted for in the MSP call account resulting in misstatement of both other income as well as bank accounts by R261.

#### Contracted Services

VAT input on Legal Fees and security services costs was incorrectly accounted for resulting in understatement of the expenses by R12 953 and R1 430 respectively.

#### Depreciation

Depreciation was understated by depreciation on assets donated which were not completely accounted for by the municipality. This resulted in misstatement of depreciation expense and related assets by R953 466. Cellphone equipment was incorrectly capitalised resulting in misstatement of assets and depreciation expense by R336 370.

#### Finance Costs

Finance costs were overstated by interest charged on cellular equipment incorrectly classified under finance leases. This error resulted in overstatement of finance lease obligation by R24 459. SARS interest amounting to R8 617 was omitted resulting in understatement of interest costs as well as accruals.

#### General Expenses

General expenses was misstated with the following errors:

Audit committee fees(R463) , Printing and stationery(R339) , Subsistence and travel(R1 140) , and Social Responsibility Programmes(R593) , expenses were duplicated resulting in overstatement of expense and accruals by R2 535.

Assets under construction capitalised erroneously included operational expenses resulting in understatement of general expenses and overstatement of assets by R2 178 240.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Prior period errors (continued)

VAT incorrectly accounted for and a reconciling error on the MSP bank account resulted in understatement of grants and social responsibility expenses and related VAT and bank account balances by **R2 210**.

SARS penalties were omitted from the books resulting in understatement of penalties as well as accruals by **R357 738**.  
Cellular phones were incorrectly classified as finance leases resulting in understatement of telephone costs by **R375 576**

#### Remuneration of Councillors

Back pay on Councillors was incorrectly calculated and recorded resulting in overstatement of remuneration of councillors and other debtors by **R8 047**.

### STATEMENT OF FINANCIAL POSITION

#### Cash and Cash Equivalents

The MSP bank account erroneously included transactions that were not related to any payments and receipts made in the bank account. This error resulted in understatement of the MSP account by **R12 440** and overstatement of the FMG call account by **R9**. This error also resulted in misstatement in other income accounts, general expenses as well as the interest account.

#### Other Debtors

Back pay on Councillors was incorrectly calculated and recorded resulting in overstatement of remuneration of councillors and other debtors by **R8 047**.

#### Receivables from exchange transactions

Certain consumer accounts for refuse were incorrectly charged resulting in overstatement of the debtors account as well as related income/accumulated surplus by **R13 595**.

#### Receivables from non exchange transactions

Certain consumer accounts for refuse were incorrectly charged resulting in overstatement of the debtors account as well as related income/accumulated surplus by **R26 465**.

#### VAT Receivables

VAT incorrectly accounted for resulted in overstatement of VAT receivable accounts by **R157 007**.

#### Property, Plant and Equipment

There were a number of misstatements identified under assets as listed below:

Depreciation understated on donated assets omitted from the books	R-1 482 375
Overstated depreciation on cellphones incorrectly classified as assets	R 758 686
Donated assets omitted from the books and asset register .	R13 219 616
Assets costs overstated due to cellphones incorrectly classified as assets.	R - 878 106
Assets under construction incorrectly and incompletely accounted for	R 7 969 868
<b>Total</b>	<b>R 19 587 689</b>

#### Finance Lease Obligation

Cellular equipment was incorrectly classified under finance leases. This error resulted in overstatement of finance lease obligation by **R 119 788**.

#### Payables from exchange transactions

Accruals and general expenses erroneously included invalid transactions resulting in overstatements of both account balances and transactions by **R 1 221 418**

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Prior period errors (continued)

### 48. Financial instruments disclosure

#### Categories of financial instruments

#### 2017

##### Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	3,915,782	3,915,782
Other Receivables	886,832	886,832
Cash and cash equivalents	4,672,766	4,672,766
Call deposits	44,240,865	44,240,865
Receivables from exchange transactions	1,061,328	1,061,328
	<b>54,777,573</b>	<b>54,777,573</b>

##### Financial liabilities

	At amortised cost	Total
Trade payables	24,505,363	24,505,363
Consumer deposits	61,000	61,000
	<b>24,566,363</b>	<b>24,566,363</b>

#### 2016

##### Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	3,452,057	3,452,057
Other Receivables	808,844	808,844
Cash and cash equivalents	2,530,144	2,530,144
Call deposits	34,339,913	34,339,913
Receivables from exchange transactions	729,467	729,467
	<b>41,860,425</b>	<b>41,860,425</b>

##### Financial liabilities

## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

### Notes to the Annual Financial Statements

Figures in Rand

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#### Financial instruments disclosure (continued)

	At amortised cost	Total
Trade payables	19,016,904	19,016,904
Consumer deposits	61,000	61,000
	<u>19,077,904</u>	<u>19,077,904</u>

#### 49. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year.

#### 50. Budget differences

Differences between budget and actual amounts

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

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### 50. Budget differences (continued)

#### Statement of Financial Performance Revenue

##### A1 Service charges

Projection was made based on the appointment of the debt collector.

##### A2 Rental Income

Projection was made based on property developments of PSJ will result to increase in our revenue. Less was collected due to default rental receipts.

##### A3 Other Income

Projection was made with the expectation that traffic department will be fully functional.

##### A4 Property rates

Projection was made based on the appointed of the debt collector.

##### A5 Licences and permits

Budget was based on the assumption that more hawkers will be selling in the financial year.past experience.

#### Expenditure

##### B1 Employee related costs

There were vacant posts that had been budgeted but remained vacant at year end.

##### B2 Depreciation

Budget was based on the expectation of more additions will be made.Less additions were made that projected resulting in a lower depreciation amount.

##### B3 Finance costs

Projection was made based on our past financial years. Laman was fully paid up resulting in less actual charges than budgeted.

##### B4 Debt impairment

Through debt assessment on our debtors and it was identified as accumulating and projected that there will be more doubtful debt impairment.

##### B5 Repairs and maintenance

Due to unavailability of cash, we have cut on other costs of repairs.

##### B6 Contracted Services

Other contracts were awarded close to year end so the budget was not fully utilised.

##### B7 General expenses

Due to unavailability of cash we have cut on other costs.

#### Statement of Financial Position

##### Current Assets

##### C1 Inventories

Inventory budget was increased by inflation, with the expaectation that cost of inventory will increase.However less inventory was held at year end due to cash flow constraints.

##### C2 Cash & Cash Equivalent

The budget was based on the assumption that a lot of savings will be made and that possibly some conditional grants will remain unspent at year end; hence the higher cash balance.Most grants were spent at year end.

##### C3 Other Receivables

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2017

## Notes to the Annual Financial Statements

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Figures in Rand

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### 50. Budget differences (continued)

Projection was made with the expectation that traffic department will be fully functional.

#### Liabilities

##### Current Liabilities

##### D1 Employee Benefit Obligation

The budget included money to host an award ceremony for employees to incentivise them. The ceremony was not done causing the huge variance.

##### Non-current liabilities

##### D2 Employee benefit obligation

The budget included money to host an award ceremony for employees to incentivise them. The ceremony was not done causing the huge variance.

##### D3 Operating lease liability

Projection was based on the understanding that rehabilitation costs are high and therefore more might need to be set aside for that.

#### Cashflow Statement

##### Receipts

##### E1 Property rates

Projection was made based on the appointment of the debt collector.

##### E2 Service charges

Budget was based on the assumption that more hawkers will be selling in the financial year. past experience.

##### E3 Other receipts

Projection was made based on past experience, expecting debtors to pay, more vat refunds and with the expectation that traffic department will be fully functional.

##### Payments

##### F1 Employee costs and remuneration of councillors

There were vacant posts that had been budgeted but remained vacant

##### F2 Finance cost

Projection was made based on our past bank charges

##### F3 Rental of equipment

Municipality has plan to increase their rentals of machines since other departments do not have working machines.

##### F4 Repairs and maintenance

Due to unavailability of cash, we have cut on other costs of repairs

##### F5 Suppliers

Due to unavailability of cash we have cut on other costs